

ISSUE DATE: September 17, 1999

DOCKET NO. P-407, 421/CP-98-280

ORDER ESTABLISHING RATES FOR POLLING

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

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Chair  
Commissioner  
Commissioner  
Commissioner  
Commissioner

In the Matter of a Petition for Extended Area  
Service from Two Harbors to Duluth and  
Cloquet

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**PROCEDURAL HISTORY**

On February 26, 1998, subscribers in the Two Harbors telephone exchange filed a petition for Extended Area Service (EAS) to the Duluth and Cloquet exchanges. GTE Minnesota (GTE) serves the Two Harbors exchange area and U S West Communications, Inc. (USWC) serves the Duluth and the Cloquet exchanges.

On May 4, 1998, GTE submitted a traffic study that showed that the number of accounts making three or more calls per month to the Duluth/Cloquet local calling area exceeded 50 percent of the lines in the Two Harbors exchange.

On May 7, 1998, the Minnesota Department of Public Service (the Department) filed comments stating that the petition was valid and recommending that the Commission order the affected telephone companies to file cost studies and proposed rates.

On August 21, 1998, the Commission issued its ORDER REQUIRING COST STUDIES AND PROPOSED RATES. In its Order, the Commission found that the Two Harbors exchange was adjacent to the Duluth/Cloquet LCA and that the calling volume from Two Harbors to Duluth/Cloquet met the Commission's traffic criterion.

Between October 19 and October 20, 1998, the affected companies filed cost studies and proposed rates.

On March 19, 1999, the Department filed its comments and recommendations in regard to the cost studies and rate proposals of the companies. In its comments, the Department called attention to the fact that USWC included certain central offices in its cost calculations. USWC defended its position by pointing out that this cost inclusion had no affect whatsoever on the EAS rate additives reported in its study. The Department recommended a 60/40 rate allocation.

The Commission met on August 31, 1999 to consider this matter.

## **FINDINGS AND CONCLUSIONS**

Since Cloquet currently has EAS service to the Duluth exchange, the petition for EAS to the Duluth and Cloquet exchanges is viewed as to be seeking EAS to the Duluth/Cloquet local calling area (LCA).

### **I. REVENUE REQUIREMENT**

In its February 23, 1996 ORDER AFTER RECONSIDERATION in Docket No. P-999/CI-94-296, the Commission noted that the cost, or "revenue requirement," for an EAS route is generally composed of two elements: 1) the actual cost of providing EAS; that is, the value of facilities and other resources that the affected telephone companies (in that case, Melrose and USWC) would need to carry the EAS traffic; and 2) is the lost contribution to the affected companies' revenues from the provision of access and toll services when a route is converted from toll to local (EAS).

Regarding facilities costs, the Commission finds that GTE used the proper methodologies in establishing facilities costs. And although USWC included certain central office costs in its calculation, these added costs were insubstantial and did not affect the EAS additive. Therefore, USWC's facilities costs are also accepted.

As to lost margins, the Commission finds that the companies used previously accepted methodologies in establishing their costs and the Commission will, therefore, approve these costs.

### **II. EAS ADDITIVE RATES ISSUES**

#### **A. Allocation of Costs Between Petitioning and Petitioned Exchanges**

The Commission is charged with the duty to establish fair and reasonable rates. A key component of that decision is the proper allocation of costs to be recovered via the rates set for each exchange.

In this case, moving from a 75/25 split to a 60/40 split would reduce the petitioning exchange's (Two Harbors') residential rate additive by \$1.15 while raising the Duluth/Cloquet LCA residential rate additive by \$0.07 per month, a 16.4 to 1 ratio.

Moving from a 60/40 split to a 50/50 cost split would further reduce Two Harbors' residential rate additive by \$0.76 per month while raising the Duluth/Cloquet LCA rate additives another \$0.05, a 15.2:1 ratio. Both reductions exceed the 15:1 ratio utilized as a benchmark by the Department.

In this case, the Commission finds that moving from a 75/25 allocation to a 50/50 allocation is justified on the facts of this case. To illustrate the result of this move, a one-party residential customer in the petitioning exchange will pay \$1.91 less and the petitioned Duluth/Cloquet area residential customers will pay only 12 cents more, a 15.9:1 ratio.

As the Commission has noted for a number of years in these cases, the fact that only subscribers in the petitioning exchange get to vote on whether the requested EAS should be installed does not mean that the rate for the petitioning exchange should automatically absorb 75 percent of

EAS costs. The Commission follows the lead of the legislature on this question and notes that in its EAS legislation the legislature gave the Commission discretion (with respect to non-metro exchanges) to allocate between 50 and 75 percent of the costs to the petitioning exchange.

The Commission finds that the facts in this case warrant a 50/50 allocation. While the comparative increase/decrease factor is significantly lower than in many recent cases, it does weigh in favor of the 50/50 allocation. The Commission clarifies, however, that although the Commission's cost allocation decisions may appear to follow the 15:1 ratio guidepost used by the Department, the Commission simply considers the reduction/increase ratio one of several factors rather than as dispositive.

In addition to the relative rate increase/decrease function discussed above, the Commission notes, as it has in previous cases<sup>1</sup>, that while it is unlikely that an equal percentage of calls over the EAS route will be initiated by subscribers in the petitioned exchanges, it would be inaccurate to view calls initiated by Two Harbors subscribers to the petitioned area as benefitting only the Two Harbors callers. Given the Duluth/Cloquet interest in maintaining and enhancing its centrality in the region, it is clear that the LCA (Duluth businesses in particular) will experience significant benefit from the increased level of calls that the Two Harbors subscribers will initiate to the petitioned area if EAS is, in fact, established.

#### **B. Suballocation of Costs Between Petitioned Exchanges**

USWC proposed and the Department agreed that Cloquet and Duluth may be considered one exchange, since they currently form a local calling area, have the same (pre-EAS) base rate, and are owned by the same company, USWC. This approach is not required by Commission precedent and common practice, but is consistent with it. Under this approach, there is no sub-allocation of costs between the two exchanges comprising the Duluth/Cloquet LCA. The rates for each exchange, which were identical before adding the proposed EAS route with Two Harbors, EAS rise equally and remain, therefore, identical.

#### **C. Resulting Rates**

The EAS additive rates resulting from the foregoing decisions are set forth in Ordering Paragraph 1.

### **ORDER**

1. EAS rate additives for the Two Harbors, Duluth, and Cloquet exchanges reelecting the allocation and sub-allocation choices discussed above are as follows:

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<sup>1</sup> See, e.g. In the Matter of a Petition for Extended Area Service From the Royalton Exchange to the St. Cloud Exchange, Docket No. P-421/CP-96-1079, ORDER GRANTING RECONSIDERATION AND ADJUSTING ALLOCATION OF REVENUE REQUIREMENT (December 3, 1998) at page 4 and In the Matter of a Petition for Extended Area Service From the Watkins Exchange to the Cold Springs and St. Cloud exchanges, Docket No. P-412, 415/CP-97-1016, ORDER ESTABLISHING RATES AND REQUIRING POLLING (March 22, 1999) at pages 4-5.

**EAS Additives for Two Harbors:**

<b>Class of Service</b>	<b>Base Rate</b>	<b>50%</b>
One Party Residential	\$14.55	\$3.81
One Party Business/Public/Semi-Public Coin	\$29.10	\$7.62

**EAS Additives for Duluth:**

<b>Class of Service</b>	<b>Base Rate*</b>	<b>50%</b>
One Party Residential	\$14.65	\$0.24
Residential Measured	\$9.16	\$0.15
One Party Business / Coin	\$36.25	\$0.60
Business Measured	\$22.36	\$0.37
Trunk/Centron/Centrex	\$38.17	\$0.63

\*Duluth's base rate includes EAS to: Albion, Barnum, Brimson, Brookston, Carlton, Cloquet, Cotton, Meadowlands, and Superior, WI

**USWC Calculated Proposed EAS Additives for Cloquet:**

<b>Class of Service</b>	<b>Base Rate*</b>	<b>50%</b>
One Party Residential	\$15.55	\$0.24
Residential Measured	\$9.72	\$0.15
One Party Business / Coin	\$38.44	\$0.60
Business Measured	\$23.74	\$0.37
Trunk/Centron/Centrex	\$40.51	\$0.63

\*Cloquet's base rate includes EAS to: Barnum, Brookston, Carlton, and Duluth

2. GTE of Minnesota shall cooperate fully with Commission staff and contractors to conduct a poll of telephone subscribers in the Two Harbors exchange:
  - a. GTE shall provide usable, deliverable addresses for all access lines in a format and according to a schedule established by Commission staff.
  - b. GTE shall provide proof of the accuracy of the customer list as requested by Commission staff.
  - c. GTE shall provide a list of Two Harbors subscribers as of the date specified by Commission staff for polling the Two Harbors exchange.

3. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Burl W. Haar  
Executive Secretary

(S E A L)

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